

**Impact Analysis – Proposed Rule Change  
July 2018**

**Agency:** DHHS/Division of Child Development & Early Education  
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**Rule Title:** 10A NCAC 10 Subsidized Child Care Rules

**Statutory Authority:** G.S. 143B-10; 143B-153; 143B-153(2a); 143B-153(8)a; 150B-23

**State Impact:** Yes  
**Local Impact:** Yes  
**Substantial Economic Impact:** Yes  
**Private Sector Impact:** Yes

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**I. Necessity, Purpose, and Background:**

The North Carolina Social Services Commission and the Division of Child Development and Early Education propose to readopt rules in 10A NCAC 10 in accordance with G.S. 150B-21.3A as part of the periodic review of rules process. The proposed rules direct the purchase of child care services with state and federal child care funds administered by the Division through the Subsidized Child Care Assistance Program.

The Commission and the Division also propose to repeal rules .0201, .0202, .0301, .0306, .0311, .0312, .0501, .0502, .0503, .0504, .0505, .0506, .0701, .0901, .0902, .0903, .0908, .1003, and .1005. In addition to repealing many rules, there are also many rules that were rearranged and collapsed to provide greater clarity and understanding to the rules. There is no new substance to these rules nor is there a fiscal impact.

The Commission and the Division proposes:

<b>Adoptions:</b>	.1201	Definitions
	.1202	Notice
	.1203	Appeal to the Local Purchasing Agency
	.1204	Operator Appeal to Division of Child Development and Early Education
 <b>Readoptions:</b>		
	.0101	Scope
	.0102	Definitions
	.0203	Rates for Subsidized Child Care
	.0307	Reimbursement
	.0310	Requirements for the Administration of the Subsidized Child Care Program
	.0601	Standards for Centers Participating in the Subsidized Child Care Program
	.0904	Optional Provision of Services
	.0905	Support to Employment: Training for Employment
	.0906	Support for Protective and Child Welfare Services
	.0907	Promote Child's Development
	.0909	Parental Freedom of Choice
	.0910	Definition of Special Needs Child
	.1001	Basic Eligibility Criteria
	.1002	Income Eligible Status
	.1004	Without Regard to Income
	.1006	Determination of Income Eligibility

	.1007	Requirements for Determination and Redetermination of Eligibility
	.1101	General Fee Policy
	.1102	Amount and Collection of Client Fees
	.1103	Adjustments in Fees
<b>Repeals:</b>	.0201	Applicability
	.0202	Payment Rates
	.0301	Definition of Fund
	.0306	Allocation
	.0311	Provider Appeal to Local Purchasing Agency
	.0312	Appeal to Division of Child Development and Early Education Subsidy Services Review Panel
	.0501	Scope
	.0502	Approval
	.0503	Length of Contract
	.0504	Administration of Funds
	.0505	Administration of Program
	.0506	Records
	.0701	Standards for Family Child Care Homes Participating in the Subsidized Child Care Program
	.0901	Scope
	.0902	Methods of Service Provision
	.0903	Definition of Service
	.0908	Limitations
	.1003	Adjustments in Fees
	.1005	Responsibility for Eligibility Determination

## II. Summary of Proposed Rule Changes:

### Rules with No Fiscal Impact

Rule	Changes and Rationale	Impact
<b>.0101</b> <b>Scope</b>	Readopt as written	No fiscal impact
<b>.0102</b> <b>Definitions</b>	Added definition for funds, legal guardian, North Carolina Families Accessing Services Through Technology (NC FAST), recipient fees, and supplemental payment	No substantive change or fiscal impact
<b>.0203</b> <b>Rates for Subsidized Child Care</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.0310</b> <b>Requirements for the Administration of the Subsidized Child Care Program</b>	Changed name of program throughout rule language; clarified language in rule	No substantive change or fiscal impact
<b>.0601</b>	Clarified language in rule	No substantive change or fiscal impact

<b>Standards for Centers Participating in the Subsidized Child Care Program</b>		
<b>.0904</b> <b>Availability of Funding</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.0906</b> <b>Support for Protective and Child Welfare Services</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.0907</b> <b>Promote Child's Development</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.0909</b> <b>Parental Freedom of Choice</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.0910</b> <b>Definition of Special Needs Child</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.1001</b> <b>Basic Eligibility Criteria</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.1002</b> <b>Income Eligible Status</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.1004</b> <b>Without Regard to Income</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.1006</b> <b>Determination of Income Eligibility</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.1007</b> <b>Requirements for Determination and Redetermination of Eligibility</b>	Changed school to training or an education program to provide great clarity	No substantive change or fiscal impact
<b>.1101</b> <b>General Fee Policy</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.1103</b> <b>Adjustments in Fees</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.1201</b> <b>Definitions</b>	Added definitions for Appeals Section	No substantive change or fiscal impact

<b>.1202</b> <b>Notice</b>	Clarified language in rule	No substantive change or fiscal impact
<b>.1204</b> <b>Operator Appeal to Division of Child Development and Early Education</b>	Clarified language in rule	No substantive change or fiscal impact

#### **Rules with Fiscal Impact**

<b>Rule</b>	<b>Changes</b>	<b>Rationale</b>
<b>.0307</b> <b>Reimbursement</b>	Changed language about how attendance is entered in order to reimburse providers for services provided.	The SCCA Program previously used the Subsidized Child Care Reimbursement System which required Local Purchasing Agencies to key attendance information directly into the system. The Program is now using NC FAST which requires that providers enter attendance directly into the NC FAST Provider Portal.
<b>.0905</b> <b>Support to Employment: Training for Employment</b>	Clarified language in rule: changed post-secondary education maximum from 2 years to 20 months.	The post-secondary education maximum was changed to 20 months to reflect current NC legislation. 2025 families currently in post-secondary education that will lose 4 months of subsidy payments. The 4 months of subsidy payments is savings to state offset by cost to families.
<b>.1102</b> <b>Amount and Collection of Client Fees</b>	Clarified language in rule: changed language about collection of recipient fees	The SCCA Program previously used the Subsidized Child Care Reimbursement System which disregarded any recipient fee that was less than \$5.00. The Program is now using NC FAST which assesses a recipient fee at any amount. The removal of fee waiver will be a surplus to providers offset by the cost to the families.
<b>.1203</b> <b>Appeal to the Local Purchasing Agency</b>	Changed name of rule; clarified language in the rule; separated appeals process for operators and recipients.	This change was made in the rule to provide clarity of the exact process for operator appeals and recipient appeals as the two appeal processes are not exactly the same. The

		impact of separating to a two-appeal process is unknown; possibly no change.
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### **Impact:**

#### **.0307 Reimbursement**

The primary impact for the changes in these rules involves the onboarding of the subsidized child care program into the North Carolina Families Accessing Services through Technology (NC FAST) program. This project is designed to improve and streamline the subsidized child care program application process, provide better case management capabilities across services, and incorporate a new process for collecting and assuring time and attendance within the subsidized child care program. NC FAST will include a provider self-service component known as the Provider Portal. This portal will be used by providers to enroll in the Subsidized Child Care Assistance program, accept children into their care, update rates for services, and record attendance.

The change to Rule .0307 Reimbursement involves the provision that NC FAST is utilized for provider enrollment, recording of attendance and payment reimbursement. The transition to an electronic system for provider enrollment, attendance, and reimbursement is expected to decrease the amount of time necessary to complete these tasks. Based on surveys of county staff that currently perform these functions manually, electronic enrollment through the Provider Portal is estimated at to save 30 minutes on this function. Electronic check processing will reduce staff time requirements by approximately 40 hours per month per county.

The major impact will involve the shifting of responsibility from the County Social Service Agencies to the local providers and the State. The Counties will no longer have the responsibility of provider enrollment, entering attendance, and processing reimbursement checks. This time savings, estimated based on county staff surveys, is estimated at \$1.25M per year.<sup>1</sup>

Provider enrollment and entering of attendance into the NC FAST system will be the responsibility of the providers. The estimated cost of the time it will take providers to complete these tasks in the new electronic system, based on surveys of county staff currently performing these tasks manually, is \$426 thousand per year. Providers estimate that it takes 1.5 minutes per child to enter attendance, which would result in an estimated cost of \$441 thousand per year<sup>1</sup>.

The electronic reimbursement will be the responsibility of the State through a contract with FIS, estimated at \$33 thousand per year. (a monthly maintenance cost of \$2000 fee plus 20 cents per provider)<sup>2</sup>.

While the subsidized child care program will be administered through NC FAST, the technology system was developed to serve similar functions for multiple programs and Divisions within DHHS. It is difficult to isolate and apportion the cost of the functions discussed above from the overall costs of the agency-wide project. The estimated cost of developing the NC FAST system for the Division was \$51.3 million, with an additional \$3.7M spent on training in the new system (including the cost of the time that 100

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<sup>1</sup> All calculations of hourly wages for county and provider time are based the average child care administrator hourly wage reported in the *Working in Early Care and Education in North Carolina 2015 Workforce Study*. Wage growth projections were based on IHS Market's regional industry wage projections for North Carolina, for the health care and social assistance industry. Finally, national data from the Bureau of Labor Statistics on wages and benefits for this industry group were used to estimate total compensation costs. See industry data here: <https://www.bls.gov/iag/tgs/iag62.htm#about>.

<sup>2</sup> Data provided by DHHS's Program Compliance Section

counties and 3838 providers spent in training). Ongoing operation and maintenance costs are estimated at \$2.3M per year, assuming that the Division's ongoing operation and maintenance costs are proportional to its development costs (10% of entire project).<sup>3</sup>

However, these estimated costs for the Division include the cost of integrating Low Income Energy Assistance Program (LIEAP) and Crisis Intervention Program (CIP) programs into the system, as well as the Subsidized Child Care program. Child care is the largest of these programs and presumably accounts for the greatest portion of the costs. However, the Division is unable to further disaggregate the costs by program. Therefore, the net time savings from transitioning the Subsidized Child Care program's administrative processes into NC FAST, described above, should not be compared to the Division's costs for developing and maintaining the system directly; these figures provide a conservatively high estimate of the state's total costs. Given these data limitations, the Division is unable to determine whether the benefits of integrating the Subsidized Child Care program into this system exceed the costs. However, as mentioned above, NC FAST will provide administrative and case management functions for multiple programs crossing several Divisions of DHHS. Quantifying and monetizing the secondary benefits of a centralized, electronic system are beyond the scope of this analysis.

#### **.1102 Amount and Collection of Client Fees**

Another change due to NC FAST is the removal of the fee waiver for fees under \$5. NC FAST assesses a recipient fee at any amount. The removal of fee waiver will be a surplus of \$61 thousand to providers annually, offset by the cost of the same amount incurred by the families, resulting in an overall fiscal impact of \$0.<sup>4</sup>

#### **Net Impact of Rules .0307 and .1102 by Entity**

Entity	NC FAST development and training costs to date	NC FAST implementation FY18-19 and beyond (annual)
Providers	\$(3,640,000)	\$(426,000)
Counties	\$(95,000)	\$1,250,000
Families	\$-	\$(61,000)
State Government Includes Subsidized Child Care, LIEAP, CIP	\$(51,280,000)	\$(2,303,000)

#### **.0905 Support to Employment: Training for Employment**

This rule stipulates that the length of time recipients in post-secondary education receive subsidy payments will be reduced from 24 months to 20 months, to reflect statutory changes (S.L. 2011 – 145 10.1.(c)). While the statutory change was implemented into policy in 2011, it is presently being codified in Rule. This necessitates calculating the present and ongoing impact of this change.

Currently, there are an estimated 2025 subsidy recipients in post-secondary education. This reduction of the length of time receiving subsidy payments from 24 to 20 months will result in a savings to state of 4 months of subsidy payments (approximately \$3.6 million per year)<sup>5</sup>.

<sup>3</sup> The estimated costs of NC FAST are based on calculations performed by the NC Office of State Budget and Management on the total costs of NC FAST provided by DHHS's Budget and Analysis.

<sup>4</sup> Based on an average fee of \$2.50 for the 24, 12 families currently in the system with fees under \$5.

<sup>5</sup> The average subsidy payment \$440.49 multiplied by the number of recipients currently receiving post-secondary education (2025)

However, this amount will become a cost to families of a loss of 4 months of subsidy payments. In addition, families will either incur the full cost of child care payments at the market rate, rather than the subsidized rate or forego services at their current provider<sup>6</sup>. Lack of access to quality child care could affect educational and employment outcomes for recipients. The Division is unable to predict how families will respond to the reduction in subsidy payments. Therefore, the analysis below presents the impact to families for 4 months of child care at market rates, an estimated cost of \$4.5 million per year.

Child care providers would benefit from receiving market rates rather than subsidized rates for those 4 months, estimated at a maximum of \$944 thousand per year.

**Net Impact of Rule .0905 by Entity**

Entity	FY18-19 and Beyond
State Government	\$3,600,000
Providers	\$944,000
Families	\$(4,500,000)
<b>Total</b>	<b>\$-</b>

**Uncertainties:**

Rule .0905 stipulates that the length of time recipients in post-secondary education receive subsidy payments will be reduced from 24 months to 20 months, to reflect recent statutory changes (S.L. 2011-145 10.1.(c)). While the analysis above recognizes the loss for families in terms of 4 months of subsidy payment and the potential added cost of incurring the full market rate price for child care, there is uncertainty as to the wider implications of this Rule change. Lack of access to quality child care could affect educational and employment outcomes for recipients. The Division is unable to predict how families will respond to the reduction in subsidy payments. There are unquantifiable potential costs of failing to finish an education program in terms of loss of investment of the time and funds spent attempting to receive the educational training, as well as the potential loss of future income that would have resulted from obtaining the training or credential.

**Alternatives:**

Despite the substantial impact of this rule, there are no alternatives that can be presented to the changes. The changes above are in response to legislation that necessitated the changes leaving no discretion in implementing the Rule, nor discretion in how the Rule is implemented.

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<sup>6</sup> The average market rate for a 4-Star child care multiplied by the number of recipients currently receiving post-secondary education (2025)